



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	SB0259	Title:	Earned income tax credit
Primary Sponsor:	Kaufmann, Christine	Status:	As Introduced

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$21,224	\$33,048	\$33,048	\$33,048
Revenue:				
General Fund	(\$18,467,595)	(\$18,838,794)	(\$19,217,453)	(\$19,603,724)
Net Impact-General Fund Balance:	<u>(\$18,488,819)</u>	<u>(\$18,871,842)</u>	<u>(\$19,250,501)</u>	<u>(\$19,636,772)</u>

Description of fiscal impact:

This bill creates a Montana earned income tax credit equal to 15% of the federal credit. This credit would reduce General Fund revenue by \$18.5 million in FY 2010; reductions are expected to grow about 2% per year.

FISCAL ANALYSIS

Assumptions:

1. This bill would allow resident taxpayers who take the federal earned income credit against their federal income tax to take a credit equal to 15% of their federal credit against their state income tax, beginning with tax year 2009.
2. The most recent year that the IRS has complete data on the earned income tax credit is 2006. In 2006, 74,544 taxpayers with a Montana address claimed \$128.869 million in earned income credits. The average growth in the amount of credits from 2003 to 2006 was 2.01% per year. Average growth is assumed to continue at 2.01% per year.
3. Federal credits claimed by Montana taxpayers will be \$136.797 million for 2009 (\$128.869 million $\times 1.0201^3$). Federal credits claimed by Montana taxpayers will be \$139.547 million in 2010, \$142.352 million in 2011 and \$145.213 million in 2012.
4. Some taxpayers eligible for the federal credit will be part year residents and won't be eligible for the Montana credit. Some taxpayers claiming the federal credit will not claim the state credit. It is assumed

that only 90% of taxpayers that claim the federal credit with a Montana address will claim the state credit.

5. This bill applies to all tax years beginning after December 31, 2008.
6. Credits for tax year 2009 would be \$18.468 million (90%×15%×\$136.797 million), reducing general fund revenue by the same amount in FY 2010. General fund revenue would be decreased by \$18.839 million in FY 2011, \$19.217 million in FY 2012 and \$19.604 million in FY 2013.
7. This credit would be available to all taxpayers claiming the federal earned income tax credit. Currently there are some Montana residents that file federal returns but are not required to file Montana income tax returns because their income is below the filing requirement. It is assumed that some of these taxpayers would file a state return to claim the state credit.
8. To accommodate the increase in returns, the department would require an additional 0.5 FTE. This position would start January 1, 2010, midway through FY 2010, to help process 2009 returns.
9. Changes to income tax forms and modification of GenTax, the software used to administer state taxes, to accommodate this credit would be made as part of the normal annual update process.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.50	0.50	0.50	0.50
<u>Expenditures:</u>				
Personal Services	\$12,676	\$25,352	\$25,352	\$25,352
Operating Expenses	\$3,648	\$7,696	\$7,696	\$7,696
Equipment	\$4,900	\$0	\$0	\$0
TOTAL Expenditures	\$21,224	\$33,048	\$33,048	\$33,048
<u>Funding of Expenditures:</u>				
General Fund (01)	\$21,424	\$33,048	\$33,048	\$33,048
<u>Revenues:</u>				
General Fund (01)	(\$18,467,595)	(\$18,838,794)	(\$19,217,453)	(\$19,603,724)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$18,489,019)	(\$18,871,842)	(\$19,250,501)	(\$19,636,772)

Technical Notes:

1. The American Recovery and Reinvestment Act which was recently passed out of the U.S. House finance committee included an expansion of the federal earned income tax credit. Some form of this legislation is expected to be passed by Congress and signed by President Obama. If the final version includes an expansion of the federal earned income tax credit, then the impact to the state general fund would increase because the state credit is tied to the federal credit.

Sponsor's Initials

Date

Budget Director's Initials

Date